



**EXAMINATION OF SELECTED  
TRANSACTIONS AND ACTIVITIES  
OF THE CITY OF SPARTA FROM  
JULY 1, 1998, THROUGH SEPTEMBER 30, 2000**

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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

February 12, 2001

The Hon. Brenda Henry, Mayor  
City of Sparta  
PO Box #40  
Sparta, Kentucky 41086

RE: Examination Report on Selected Transactions and Activities of the City of Sparta

Dear Mayor Henry:

We have performed an examination of selected transactions and activities of the City of Sparta (City), and transmit herewith our report. Our examination was triggered by concerns expressed to our office. Our objectives were to determine whether (1) an occupational license was inappropriately issued, (2) conflicts of interests influenced official acts, and (3) grant funds were misused. Procedures performed during this engagement included interviewing City personnel and private citizens, as well as examining City accounting records and supporting documentation.

Our examination revealed that a 20-year Occupational Business License for a motel, restaurant, and adult lounge (License), purchased by LAW/WAL, LLC on April 12, 1999, in exchange for a fee of \$10,000, was issued by the City in the absence of a governing ordinance. That mode of enactment appears to depart from the guidelines set forth in OAG 83-64 and OAG 84-97. Certain circumstances were also noted that create the appearance that official acts of the City were improperly motivated.

We take exception to the following grant funds activities:

- Expenditures totaling \$1,088.39 for office supplies, accrued interest, and loan fees paid with Office of Community Oriented Policing Services (COPS) grant funds did not comply with the grant agreement;

Mayor Henry  
February 12, 2001  
Page 2

- Improper treatment of cash payments to City Police Department employees in lieu of health insurance premiums violated Internal Revenue Code Section 61, 3111, and 3402, as well as KRS 141.010 and 141.310; and,
- Expenditures totaling \$7,890.16 for the purchase, outfitting, repair, and maintenance of a Ford Explorer used for both Police and Road Department purposes, violated KRS 177.369(2).

We appreciate the cooperation received from the City and others during the course of our work.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

EBHJr:kct

## **Findings and Recommendations**

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### **The City improperly issued a 20-year Occupational Business License in the absence of an authorizing ordinance.**

---

Our examination revealed that the City issued by resolution (see Exhibit A) an Occupational Business License to operate a motel, restaurant, and adult lounge (License), with a twenty-year term, to LAW/WAL, LLC on April 12, 1999 (see Exhibit B). LAW/WAL, LLC was organized as a limited liability company and registered with the Kentucky Secretary of State's Office on September 30, 1998. In return for the License, the City received a \$10,000 fee.

According to City officials, there is no ordinance authorizing or requiring issuance of the License. An Opinion of Kentucky's Attorney General, OAG 83-64, states that:

“any attempt on the part of a city to enact, by resolution or legislative order, matters other than those involving the internal operation of city government mentioned in the above referred to statutes, without following the statutory procedure for the enactment of ordinances including publication, would be invalid.”

Furthermore, in OAG 84-97, opining on the impropriety of a city repealing, by resolution, a city insurance tax originally enacted by ordinance, the Attorney General wrote: “[I]t was necessary to enact in the first instance the licensing procedure pursuant to an ordinance, which has been adjudged essential to accomplish such legislative purposes as that of levying a tax or exercising the power of licensing.”

For the City to authorize the issuance of Occupational Business Licenses by resolution is improper; a resolution of the City licensing a restaurant/motel/adult lounge to operate within the City neither pertains to the internal operations of the City, nor is appropriate to exercise the power of licensing. Therefore, the City's adoption of a resolution to issue the License in the absence of an authorizing ordinance appears to be legally ineffective, thus making the License presumptively invalid.

*Terms of the License deviated from standard practice.*

The License was for a stated term of twenty years, which stands in marked contrast to a one-year term characteristic of standard practice for such licenses. LAW/WAL, LLC also purchased the statutorily-required Retail Beer, Restaurant Wine/Liquor, and Gallatin County Business licenses (see Exhibit C) for its adult lounge, *Racers Pit Stop Grille* (*Racers*). These state and county licenses all included terms for the remainder of the fiscal year, making annual renewal necessary.

*The facts surrounding issuance of the License raise questions.*

Our examination revealed that a co-Manager of LAW/WAL, LLC offered to purchase the twenty-year License from the City for a \$10,000 fee even though the License was not authorized by any City ordinance. The License itself and the resolution to issue it were actually drafted by a co-Manager of LAW/WAL, LLC who then submitted these documents to the City hours before the City Commission meeting. According to a co-Manager of LAW/WAL, LLC this sequence of events was chosen to ensure the documents contained language that would effectively insulate LAW/WAL, LLC from risk.

*Recommendations*

We recommend that the City take the following actions:

- Enact an ordinance authorizing the issuance, and requiring the purchase, of Occupational Business Licenses; and,
  - Codify in such an ordinance a provision for annual renewable terms and henceforth ensure the equitable treatment of all businesses located or locating within the City.
- 

**Circumstances surrounding consideration of Ordinance 820.001 created the appearance that official acts of the City were improperly motivated.**

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The City began exploring the possibility of developing an ordinance to regulate adult entertainment on December 14, 1998, when the City Commission directed the City Clerk to begin researching the matter (see Exhibit D). On February 15, 1999, the City Commission passed a motion stating its intent to enact an ordinance regulating adult entertainment businesses within the City.

The City Clerk contacted the Local Government Law Center (Center), affiliated with the Chase College of Law at Northern Kentucky University, for assistance in developing ordinances. On March 1, 1999, the Center provided the City with examples of adult entertainment ordinances from other

cities. The City then developed proposed Ordinance 820.001 to regulate adult entertainment within the City, which our examination determined was based nearly word-for-word on the Morehead adult entertainment ordinance, which was one of the examples provided by the Center. According to the Morehead City Attorney, the Morehead adult entertainment ordinance was based on a similar ordinance in the City of Newport.

The first reading of Sparta's proposed Ordinance 820.001 took place at the March 15, 1999, City Commission meeting. It was then published in the *Gallatin County News* on March 24, 1999.

According to the minutes of the March 29, 1999, City Commission meeting, a decision was made to table proposed Ordinance 820.001 until a legal challenge to Lexington's adult entertainment ordinance was resolved. A similar decision was documented in the April 5, 1999, City Commission meeting minutes. According to City officials, proposed Ordinance 820.001 was never again acted upon and remains tabled.

A City official stated that the City's financial inability to defend a legal challenge to any adult entertainment ordinance it might enact also influenced the decision to table proposed Ordinance 820.001. The City, nevertheless, has since become involved in substantial litigation on another matter, although representation in that matter is being provided by a LAW/WAL, LLC co-Manager and another attorney at no cost to the City.

*The City accepted \$20,000 from a LAW/WAL, LLC co-Manager the day of the first reading of proposed Ordinance 820.001.*

The City recorded the receipt of a \$20,000 donation from a LAW/WAL, LLC co-Manager on March 15, 1999. The first reading of proposed Ordinance 820.001 and a report from the City Clerk that the City's bank account was about to be overdrawn also occurred on this date (see Exhibit D). This co-Manager acknowledged making that donation to allow the City to purchase a 1999 Jeep Cherokee for the Police Department.

*The City began occupying property owned by a LAW/WAL, LLC co-Manager for its City Hall rent-free shortly after proposed Ordinance 820.001 was tabled.*

Our examination revealed that a LAW/WAL, LLC co-Manager owns the property that is used as the Sparta City Hall, which the City leases from the co-Manager. However, the owner of the property forgives the City's rental payment. City officials said the City Hall began its rent-free occupancy of the site in April of 1999, although the rental agreement actually specifies a term beginning January 1, 1999 (see Exhibit E). According to the rental agreement, the forgiven rent is valued at \$2,000 per month. The property owner stated that he reports the value of forgiven rent as a tax write-off.

Gallatin County records indicate the property was purchased by the LAW/WAL, LLC co-Manager for \$25,000 in 1996. As is customary following a sale of real property, the assessed value was set at the sales price of \$25,000 (see Exhibit F). Given the attributes and price paid for this property, \$24,000 per year appears to be an overstated rental valuation. The co-Manager said that this valuation was based on his personal estimate.

The co-Manager also stated that the property was leased by a party before the City became the tenant. The agreement stating the rental rate charged to that tenant was not available for examination and comparison. We were told the previous tenant had not paid the rent that was due.

The co-Manager said that he offered to let the City use the property because the previous City Hall had suffered flood damage and his property was vacant. He also believed having a tenant in the building would benefit him by providing upkeep for the property.

*A LAW/WAL, LLC co-Manager offered to purchase the License 14 days after the City tabled an ordinance detrimental to the LLC.*

City Commission minutes indicate that both LAW/WAL, LLC co-Managers were present at the April 12, 1999, City Commission meeting. A LAW/WAL, LLC co-Manager addressed the City Commission to seek the City's support for LAW/WAL, LLC's business development plans and to offer to purchase the License. This co-Manager stated that during this meeting he told the City Commission that LAW/WAL, LLC would not pursue its plans if the City Commission did not approve the LLC's business development plans. The City Commission was informed that these plans included building an adult lounge, *Racers*, in the City, as evidenced by the City resolution (see Exhibit A), the License (see Exhibit B), and a letter from the co-Manager (see Exhibit G).



*A LAW/WAL, LLC co-Manager advises the City on legal matters.*

Our examination revealed that a LAW/WAL, LLC co-Manager provides the City legal advice at no cost to the City. While this attorney-client relationship is not formalized in a written document, professional attorney-client standards would appear to apply. The co-Manager stated that he does not consider himself to be acting in the capacity of an attorney for the City. The City, however, apparently believed otherwise.

The March 29, 1999, City Commission meeting minutes document a duly-adopted motion reflecting the City's intent to accept one of the LAW/WAL, LLC co-Managers as a City attorney. This meeting is also the first time that the City Commission decided to table proposed Ordinance 820.001 (see Exhibit D). Articles in the media citing this co-Manager as the City's attorney are also noted.

*Tabling proposed Ordinance 820.001 was significantly beneficial to Racers.*

According to a LAW/WAL, LLC co-Manager, an ordinance that prevented nudity, as the proposed Ordinance 820.001 did, would be very damaging to *Racers'* business. This co-Manager stated that *Racers* would be forced to challenge the legality of such an ordinance, or close its doors. Additionally, proposed Ordinance 820.001 would have required a \$5,000 annual license fee, or ten times the annual amount paid for the License. The co-Manager said he was aware of proposed Ordinance 820.001 at the time the License was issued, but was not concerned about it after he obtained the City Commission's approval in the form of the License.

The City has received significant financial support as well as legal representation from the co-Managers of LAW/WAL, LLC. The City's receipt of some of this support and legal representation occurred near in time to the tabling of proposed Ordinance 820.001. Tabling proposed Ordinance 820.001 constituted a significant financial benefit to LAW/WAL, LLC. These facts, taken as a whole, create the appearance that the City may not have been dealing at arm's length with LAW/WAL, LLC when deciding to table proposed Ordinance 820.001 and issue the License. At the very least, it is not good public policy for the City to be in a business relationship with a co-Manager of LAW/WAL, LLC, whose adult entertainment business can be regulated by the City and whose co-Manager is the City's attorney. This relationship creates both the appearance of impropriety and a perception that conflicts of interests exist.

## *Recommendations*

We recommend that the City take the following actions:

- Enter into formal agreements with any and all parties providing legal services to the City to ensure that relationships are clearly understood and documented; and,
- Take all necessary steps to ensure that the City carries out all official acts objectively, at arm's length, and free of impropriety and conflicting interests, both in fact and appearance.

**The City used COPS grant funds improperly and its ability to meet other grant requirements is questioned.**

On May 1, 1999, the federal Office of Community Oriented Policing Services (COPS) granted the City a Universal Hiring Award (COPS grant) in the amount of \$224,808. The purpose of this COPS grant was to fund 75 percent of the cost of hiring three additional police officers for the period May 1, 1999, through April 30, 2002. Key conditions of the COPS grant include (1) expending funds only for allowable costs as dictated in the approved grant budget, (2) matching 25 percent of the total cost with local funds, and (3) retaining the three positions beyond the grant period. The City applied to COPS for a waiver of its matching requirement, but the application was declined. The City employs an external contract employee to administer the COPS grant funds and the COPS grant bank account, which is segregated from City accounts.

*\$1,088.39 of COPS grant funds were used to pay expenses that are not allowable costs.*

### Non-Allowable Costs

Loan Interest	\$882.94
Office Supplies	118.45
Loan Fees	<u>87.00</u>
	<u>\$1,088.39</u>

Our examination found that the City covered allowable COPS grant costs with a short-term loan from Integra Bank until COPS grant funds became available. The allowable costs were specified in the COPS grant's approved budget, which included only costs for police officers' salaries and fringe benefits. Draws from the bank loan of \$10,000 and \$20,000 were made by the City on May 24, 1999, and July 27, 1999, respectively. The City received the first draw of COPS grant funds in the amount of \$52,762 on October 26, 1999.

The City repaid the bank loan on October 28, 1999, with a \$30,969.94 disbursement from COPS grant funds. This repayment consisted of \$30,000 principal, \$882.94 interest, and \$87 loan fees. Additionally, a \$118.45 disbursement to purchase blank payroll checks and envelopes for general City use occurred on June 4, 1999. Since the disbursements for loan interest, fees, and office supplies were outside the approved budget, COPS grant funds should not have been used for these expenses.

*The City must provide over \$70,000 in matching funds by April 2002 to comply with COPS grant requirements.*

The City agreed to adhere to the following U.S. Department of Justice schedule of COPS grant local matching funds:

Year 1	\$15,975
Year 2	24,981
Year 3	<u>33,981</u>

\$74,937

These scheduled matching payments require the COPS grant to bear a larger portion of the initial costs of additional police officers, gradually allowing the City to adjust to the burden of bearing these costs. However, as stated in the COPS Universal Hiring Program Grant Owner's Manual, matching contributions may be applied at any time during the life of the grant provided that the full matching share is obligated by the end of the grant period.

As of November 28, 2000, the City provided \$4,228.91 in local matching funds. The COPS grant contains provisions that allow for local matching requirements to be waived in certain circumstances. The City requested such a waiver, but the U.S. Department of Justice declined the request. The City submitted an appeal, which was again declined by the U.S. Department of Justice on January 5, 2001. The City must still provide \$70,708.09 in COPS grant local matching funds by April 30, 2002.

*The City's plan to fund the retention of three police officers at their present salary levels after the COPS grant expires does not appear to be adequate.*

The City's total salaries and benefits cost to retain three full-time police officers at their present salaries is \$99,915 annually. Our examination identified approximately \$56,000 in anticipated recurring revenues during fiscal year 2000, which includes disputed property taxes received for which litigation is pending. The City's Law Enforcement Officer Retention Plan (Retention Plan) states the City will dedicate, among other revenues, real property taxes from the Kentucky Speedway to fund retention of police officers. The City received \$15,531.86 in real property taxes from the Kentucky Speedway on December 20, 1999. The City was unable to dedicate these real property taxes to fund law enforcement expenses because the funds were needed to meet other general operating expenses. Given that the cost to retain the police officers far exceeds recent anticipated recurring revenues and the demonstrated need to use real property taxes from the Kentucky Speedway to meet general operating expenses, the City's Retention Plan appears inadequate.

*Improper treatment of payments for certain employee benefits resulted in some City employees receiving tax-free compensation.*

The first external contract employee handling the COPS grant activity properly treated cash payments to City Police Department employees in lieu of health insurance premiums as taxable fringe benefits. The City then changed external contract employees and was incorrectly advised that such payments were not taxable. The City subsequently applied for a refund of the withholdings remitted to the Internal Revenue Service, and paid the amounts requested as refunds to the affected employees. Subsequent similar payments to Police Department employees were routinely excluded from gross income and taxes have not been withheld.

Excluding these payments from gross income violates Internal Revenue Code (IRC) Section 61 and KRS 141.010. Not paying employer taxes violates IRC Section 3111, and not withholding income taxes from employees violates IRC Section 3402 and KRS 141.310.

The City has retained a private accounting firm to perform a comprehensive financial audit. Our office has referred this issue to that firm for quantifying the impact on the City budget. Cash payments are no longer made to Police Department employees, and the City currently pays health insurance premiums directly.

*Recommendations*

We recommend that the City take the following actions:

- Reimburse the COPS grant bank account \$1,088.39 for expenses paid with COPS grant funds that are not allowable costs;
- Establish a procedure to provide City Commission oversight of the use of grant funds;
- Formulate a plan to ensure that local matching funds are available to meet COPS grant requirements;
- Revise the Retention Plan to ensure adequate funding will be available to comply with the COPS grant requirements; and,
- Correct underreporting and resolve City liabilities resulting from the improper treatment of cash payments made to City employees in lieu of insurance premiums.

**Municipal Road Aid funds were used improperly.**

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The City receives funds from the Commonwealth under the Municipal Road Aid program, which are deposited in a Municipal Road Aid bank account. KRS 177.369(2) states that these funds are to be expended “solely for the purpose of construction, reconstruction, and maintenance of urban roads and streets set forth in KRS 177.365.”

*Over \$7,000 in Municipal Road Aid funds were used for equipment used by both the Police and Road Departments.*

**Improper Road Aid Expenditures**

Explorer Purchase	<b>\$4,959.00</b>
Maintenance & Repairs	<b>2,147.51</b>
Police Equipment	<b><u>783.65</u></b>
	<b><u>\$7,890.16</u></b>

On October 20, 1998, the City purchased a 1991 Ford Explorer with Municipal Road Aid funds at a cost of \$4,959. An additional \$2,931.16 in Municipal Road Aid funds was spent to equip, repair, and maintain this vehicle. City personnel have stated that this vehicle was purchased for the Road Department to plow snow. Records indicate that this vehicle was also used by the newly organized Police Department, which use was confirmed through individual interviews.

The City's first three police officers were sworn in November 16, 1998. Expenditures that clearly indicate Police Department use of the Explorer include a \$783.65 invoice for radio, siren, and siren speaker equipment purchased and installed in the Explorer on October 21, 1998. The vendor installing this equipment recalled that the equipment was installed in a police vehicle.

Additionally, an entry in the Municipal Road Aid bank account check register on April 15, 1999, documents the expenditure of \$500 for an engine in the Explorer. This entry includes the annotation "police," indicating that the Explorer continued to be used as a police vehicle even after the purchase of the 1999 Jeep Cherokee, most likely until the purchase of the two Ford Crown Victoria cruisers December 27, 1999. While the Explorer was used for road maintenance purposes when plowing snow, it is clear that it was also used for purposes unrelated to the construction, reconstruction, or maintenance of roads in violation of KRS 177.369(2).

*Recommendations*

We recommend that the City take the following actions:

- Prorate the Explorer's use as a police vehicle;
- Reimburse the City's Municipal Road Aid bank account for the appropriate percentage of the \$7,890.16 spent on the Explorer; and,
- Implement a procedure in which the City Commission specifically approves individual expenditures of Municipal Road Aid funds to ensure they are used properly.

## **EXHIBITS**

**EXHIBIT A**

Apr-12-99 02:37P Grant County Drugs

P.02

RESOLUTION  
OF  
SPARTA CITY COUNCIL

Upon the application of \_\_\_\_\_, Managing Member of LAW/WAL LLC, which firm is currently constructing a Restaurant, Motel, and Adult Lounge on property on the Boone Road, East of Kentucky State Route # 35, Council having been advised that:

1. Construction of these three business began in 1998, and,
- 2.. It being unclear how much of applicant's property may be taken for highway improvements, and
3. There being no certain present solution to the sanitary sewage plant for the Motel, Restaurant, and Adult Lounge, that applicant needs the flexibility to locate, or re-locate its facilities upon properties East of Kentucky State Route # 35, on the North and South Side of Boone Road, which properties are owned by \_\_\_\_\_, and property which is leased to LAW/WAL LLC, and
4. It being advantageous to the City of Sparta to receive the offered TWENTY YEAR prepayment of occupational business license in the lump sum of TEN THOUSAND DOLLARS (\$10,000.00)..,

NOW THEREFORE THE CITY COUNCIL OF THE CITY OF SPARTA RESOLVES that the City Clerk is authorized to issue to LAW/WAL LLC a 20 year occupational license to operate a



Apr-12-99 02:37P Grant County Drugs

MOTEL, RESTAURANT, and ADULT LOUNGE upon the  
properties owned by

, and the property leased by LAW/WAL LLC.

Motion made by Glen Ping  
Seconded by: Steve Eder

VOTING AYE

VOTING NAY

<u>Steve Eder</u>	_____
<u>Ricky Caplan</u>	_____
<u>John C. Sudds</u>	_____
<u>Michael Lee King</u>	_____
<u>W. M. Thompson</u>	_____
_____	_____
_____	_____

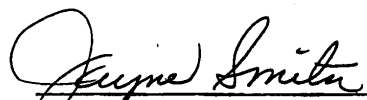
Passed in open council this 12<sup>th</sup> day of April 1999

Brenda Henry  
MAYOR

ATTEST:

Apr-12-99 02:37P Grant County Drugs

P.04

  
City Clerk.

**EXHIBIT B**

Apr-12-99 02:37P Grant County Drugs

P.05

CITY OF SPARTA  
SPARTA, KENTUCKY

OCCUPATIONAL BUSINESS LICENSE

This is to certify that LAW/WAL LLC,  
P.O. BOX 106  
DRY RIDGE, KENTUCKY 41035

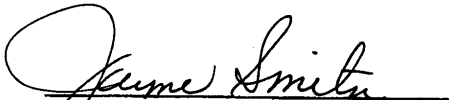
having paid TEN THOUSAND DOLLARS (\$10,000.00),  
is hereby granted an occupational business license for a Restaurant,  
Motel, and Adult Lounge for the properties located on the North  
and South side of Boone Road, East of Kentucky State Route #  
35. in the City of Sparta, Gallatin County, Kentucky, owned by  
, and the property  
leased by LAW/WAL LLC, for a period of TWENTY (20)  
YEARS, commencing on April 12, 1999, and Ending April 11  
2019

Given under my hand this 12<sup>th</sup> day of April, 1999, pursuant to

Apr-12-99 02:38P Grant County Drugs

P.05

Resolution of City Council adopted , signed by members of  
Council, and the Mayor of Sparta.

  
City Clerk

**EXHIBIT C**

ABC-689 1999-2000

COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL  
RESTAURANT WINE LIQUOR LICENSE

FEE:  
\$ 2 5 0 . 0 0

Date Issued **FEB 2 8 2000** Expires June 30, 2000

OWNER OF  
REAL ESTATE \_\_\_\_\_

NOT TRANSFERABLE: (Except as provided in Sections 243.630,  
243.640 and 243.650 Ky. Rev. Statutes)

THIS LICENSE DOES NOT CONSTITUTE A PROPERTY OR VESTED  
RIGHT AND MAY BE REVOKED ANY TIME PURSUANT TO LAW.  
Subject to the laws, rules and regulations of the Commonwealth of  
Kentucky, this licensee is hereby authorized to purchase, receive,  
possess and sell wine at retail by the glass for consumption on the licensed  
premises, during the period of this license.

Number, Name and Address of Licensee:

039-RWL-1045  
LAW/WAL LLC  
DBA: RACERS PIT STOP GRILLE  
RT #1 BOX 144 F  
SPARTA KY 41086-9726



*Harold Robinson*

ADMINISTRATOR, DISTILLED SPIRITS UNIT  
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

THIS LICENSE MUST BE FRAMED AND POSTED IN A CONSPICUOUS  
PLACE ON THE LICENSED PREMISES

ABC-625

1999-2000

COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL  
RETAIL BEER LICENSE

FEE:  
\$ 1 0 0 . 0 0

Date Issued **FEB 2 8 2000** Expires June 30, 2000

OWNER OF  
REAL ESTATE \_\_\_\_\_

NOT TRANSFERABLE: (except as provided in sections 243.630,  
243.640 and 243.650 Ky. Rev. Statutes)

THIS LICENSE DOES NOT CONSTITUTE A PROPERTY OR VESTED  
RIGHT AND MAY BE REVOKED ANY TIME PURSUANT TO LAW.

Subject to the laws, rules and regulations of the Commonwealth of  
Kentucky, this licensee is hereby authorized to sell malt beverages at retail  
from the licensed premises only and to purchase malt beverages only from  
a licensed brewer or distributor during the period of this license.

Number, Name and Address of Licensee:

039-B-4641  
LAW/WAL LLC  
DBA: RACERS PIT STOP GRILLE  
RT 1 BOX 133-F  
SPARTA KY 41086-9726



*Samuel H. Hume*

ADMINISTRATOR, MALT BEVERAGE UNIT  
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

THIS LICENSE MUST BE FRAMED AND POSTED IN A CONSPICUOUS  
PLACE ON THE LICENSED PREMISES

## LICENSE

Gallatin COUNTY  
Commonwealth of Kentucky

No. 28

Date issued: Feb. 14, 2000, effective Feb. 14, 2000, to expire June 30, 2000

Issued To: Law Wal LLC Racers Pit Stop Grill

For Premises located at Rt 1 Box 133F Sparta Gallatin  
(Street or RFD) (City or town) (County)

Subject to the laws of the Commonwealth of Kentucky, the above named licensee is hereby authorized to engage in the business or exercise the named privilege at the above location during the period of this license.

Restaurant 5.67  
Soft drinks }  
Ice Cream } 5.67  
Tobacco 5.67

Tracy Miles  
Clerk Gallatin County Court  
By: \_\_\_\_\_, D. C.

**THIS LICENSE MUST  
BE POSTED  
CONSPICUOUSLY IN  
YOUR PLACE OF BUSINESS**

TOTAL \$ 17.01

## LICENSE

Gallatin COUNTY  
Commonwealth of Kentucky

No. 30

Date issued: March 1, 2000, effective March 1, 2000, to expire June 30, 2000

Issued To: Law Wal LLC DBA Racers Pit Stop Grill

For Premises located at Rt 1 Box 144F Sparta Gallatin  
(Street or RFD) (City or town) (County)

Subject to the laws of the Commonwealth of Kentucky, the above named licensee is hereby authorized to engage in the business or exercise the named privilege at the above location during the period of this license.

Brew 34.82  
Liquor 59.82

Tracy Miles  
Clerk Gallatin County Court  
By: \_\_\_\_\_, D. C.

**THIS LICENSE MUST  
BE POSTED  
CONSPICUOUSLY IN  
YOUR PLACE OF BUSINESS**

TOTAL \$ 94.64



**EXHIBIT D**

## Occupational Business License Related Events Timeline

11/21/1996	9/30/1998	12/7/1998	12/14/1998	2/1/1999	2/15/1999	3/11/1999
A LAW/WAL, LLC co-Manager's purchase of future City Hall property for \$25,000 was recorded by the Gallatin County Clerk	LAW/WAL, LLC was organized as a limited liability company with the Kentucky Secretary of State's Office listing two co-Managers.	A LAW/WAL, LLC co-Manager's offer to donate a police vehicle and land for a new City Hall site was announced to the City Commission	City Commission directed City Clerk to research adult entertainment ordinances with the Department for Local Government	Sparta City Commission passed a motion to ask the Gallatin County Fiscal Court for a loan of \$15,000	Sparta City Commission passed a motion stating their intent to enact an ordinance regulating adult entertainment	Local Government Law Center provided Sparta with copies of adult entertainment ordinances from other cities as examples to develop their own ordinance
3/15/1999			3/24/1999	3/29/1999		4/11/1999
City Clerk reported to the Sparta City Commission that the city's bank account was going to be overdrawn by \$571.01	A LAW/WAL, LLC co-Manager's donation of \$20,000 to the City of Sparta was recorded in the City's general ledger	First reading of Sparta adult entertainment ordinance (proposed Ordinance 820.001) was held at the City Commission meeting.	City of Sparta proposed Ordinance 820.001 was published in the Gallatin County News	Resident addressed Sparta City Commission expressing concern over adult entertainment coming to the community	Sparta City Commission passed a motion to table proposed Ordinance 820.001 pending the outcome of a legal challenge of Lexington's adult entertainment ordinance	Sparta City Commission passed a motion to accept a LAW/WAL, LLC co-Manager as an attorney for the City
4/5/1999	4/12/1999	11/10/2000	11/17/2000	11/18/2000	2/28/2000	3/1/2000
Sparta City Commission decided to table proposed Ordinance 820.001 until a court decision on the Lexington adult entertainment ordinance was reached	20-year occupational license for operation of restaurant, motel, and adult lounge issued by Sparta City Commission to LAW/WAL, LLC in exchange for \$10,000 payment	Racers Pit Stop Grille registered with the Kentucky Secretary of State's Office as an assumed name limited liability company under the assumed name of LAW/WAL, LLC	City Hall lease with a LAW/WAL, LLC co-Manager (including agreement with the \$2,000/month fair rental value) signed by the Sparta City Commission	Sparta Hotel registered with the Kentucky Secretary of State's Office as an assumed name limited liability company under the assumed name of LAW/WAL, LLC	Retail Beer and Restaurant Wine Liquor Licenses issued to LAW/WAL, LLC, DBA: Racers Pit Stop Grille by the Commonwealth of Kentucky Department of Alcoholic Beverage Control	Business License issued to LAW/WAL, LLC, DBA: Racers Pit Stop Grille by Gallatin County

**EXHIBIT E**

## **RENTAL AGREEMENT**

To: City of Sparta, Kentucky

I am pleased to rent my property located at Rt. 1 Box 133A, Boone Road, Sparta, Kentucky 41086 (hereafter "City Building") at a monthly rental of \$2000.00 for a rental period commencing on January 1, 1999 and ending December 31, 2000, both dates inclusive.

This agreement is entered into between us on the following terms, covenants, and conditions which each of us agree to perform and observe by signing this Agreement.

1(A). "City" agrees the monthly rental rate is reasonable and fair.

1(B). "Owner", \_\_\_\_\_, agrees the rental rate of \$2000 per month is reasonable and fair and shall be forgiven in its entirety for the benefit of and service to the people of the City of Sparta.

2. City shall pay for all water, sewage, insurance, electricity and telephone services used in the City Building during the rental period. On or before the date set for commencement of the rental period, City shall make arrangements to have the electricity and water services transferred into City's name.

3. City shall use the premises only as city offices, parking lot, police headquarters & general city functions. City shall not permit the premises to be used in any unlawful manner, or in any noisy or other manner that may be disturbing to neighboring residents.

4. **Owner** reserves the right to enter the premises at reasonable times for the purposes of inspecting its condition...etc.

5. **City** shall neither assign this agreement nor sublet all or any part of the premises.

6. **City** shall maintain the premises in good, clean and safe conditions and repair.

7. **City** shall exercise due care in the use of the premises. **City** accepts the property as is, and agrees that **Owner** shall not be liable to the **City** or any other person for any loss, injury or the use of the premises.

8. At the end of the initial period, this agreement shall be automatically renewed at the same monthly rental and on the other terms, covenants, and conditions set forth in this agreement, except that:

(a) either **City** or **Owner** shall thereafter have the right to terminate this agreement as of the last day of the calendar month following any month in which **City** gives **Owner** written notice of termination. (b) **Owner** shall have the right to change the monthly rental rate by giving **City** written notice thereof at least one full calendar month prior to the month which the change is to be effective.

9. The amount of the security deposit is \$100.00

10. **City** shall maintain a liability insurance policy on this property during the period of their rental in an amount not less than \$100,000.00.

11. This document contains the entire agreement between the parties and no statement, representation, inducement, warranty, promise, or conduct whatsoever (oral or written) not expressly contained herein shall bind or otherwise affect either party. Time shall be the essence of all obligations under this agreement. This agreement and all of its provisions shall be

governed by the Laws of Kentucky. If any court of competent jurisdiction determines that any provision of this agreement is invalid, then such holding shall in no way affect the validity of any other provision contained in this agreement.

12. The date of this agreement is 1-17-2000. We hereby acknowledge receiving the sum of \$ 100,000 in cash/check (cross out one) as the security deposit specified in Paragraph 10.

OWNER:

\_\_\_\_\_ DATE: \_\_\_\_\_

CITY OF SPARTA:

Brandi Perry Meyer DATE: 1-17-2000  
James Smith DATE: 1-17-00

01/17/00 lease agr

Michael A. King  
Shannon Giles  
Rosetta Bundy  
Ann M. Farnal

**EXHIBIT F**

[illegible]



**EXHIBIT G**

P.O. BOX 106  
DRY RIDGE, KY 41035  
April 16, 1999

City of Sparta  
Route 1, Box 133-A  
Sparta, KY 41086

Attn: Mayor Brenda Henry

Dear Mayor Henry and Sparta City Council"

It was a genuine pleasure to attend the April 12, 1999 meeting of the Sparta City Council at your new city building on Boone Road in Sparta, Kentucky.

I was pleased to be permitted to address the City of Sparta at that meeting and present my project currently under construction on Boone Road, in Sparta, Kentucky. I plan on the first phase being the restaurant. It will be built and completed, followed by the motel and the final construction phase will be an adult lounge offering adult entertainment.

The twenty (20) year occupational license granting me permission to operate in the City of Sparta will be helpful to me in planning and of course allows me the encouragement and stability regarding the city's attitude

toward my project to allow me to invest fully and completely in this million dollar undertaking.

I will make every effort to be a model business citizen, and I look forward to operating these business in Sparta in the immediate future.

I want to thank you for the cordial and friendly manner in which I was received at your meeting, and I thank you for the opportunity to do business in your city.

Very truly yours,